



Department of Justice

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JUSTICE DEPARTMENT SUES TO BLOCK PRIMESTAR'S ACQUISITION OF NEWS CORP./MCI'S DIRECT BROADCAST SATELLITE ASSETS

Unless Deal is Blocked, Consumers Could Face Higher Cable Rates

WASHINGTON, D.C. -- The Department of Justice filed a civil antitrust suit today to block Primestar Inc. from acquiring the direct broadcast satellite assets of News Corporation Limited and MCI because it would allow five of the largest cable companies in the U.S., which control Primestar, to protect their monopolies and keep out new competitors. Direct broadcast satellite or DBS, is a service that uses orbiting satellites to transmit video programming directly to a subscriber's home.

The Department said that the companies--Time Warner Inc., Tele-Communications Inc., Comcast Corporation, Cox Enterprises Inc., and US West/MediaOne--would have little incentive to use the satellite service assets to compete aggressively against cable television. The lessened competition could ultimately result in higher cable rates for consumers, the Department said.

"DBS presents the first real threat to the cable monopoly," said Joel I. Klein, Assistant Attorney General of the Department's Antitrust Division. "Cable prices continue to increase rapidly, and unless this acquisition is blocked, consumers will be denied the benefits of competition--lower prices, more innovation, and better services and quality."

Klein said that Primestar's acquisition of the DBS assets would prevent independent firms from using the assets to compete head-to-head against cable.

Under the proposed acquisition, News Corp./MCI would transfer authorization to operate 28 satellite transponders at the 110° west longitude orbital slot and two high-power DBS satellites currently under construction to Primestar. Customers of high-power DBS use receiving dishes that can be as small as 18 inches in diameter.

In exchange for contributing their DBS assets to Primestar, News Corp./MCI would receive a 20 percent non-voting equity share in Primestar and a convertible note, with a combined value of about \$1.1 billion, and Primestar's agreement to negotiate carriage of News Corp. programming on its high-power DBS service. News Corp./MCI also agreed not to compete in the domestic DBS market for a period of 10 years following the deal's consummation.

The 110° slot is one of only three orbital slots--110°, 101°, and 119°--that can be used to provide high-power DBS service to the entire continental U.S. It is also the last position available for independent DBS firms to use or expand into. The two existing high-power DBS firms are DirecTV/United States Satellite Broadcasting Inc., which operate complementary DBS services from the 101° slot, and Echostar Communications Corporation, which operates a DBS service from a portion of the 119° slot.

MCI acquired the 110° license by bidding \$682.5 million in a Federal Communications Commission (FCC) auction in January 1996. In April 1996, MCI announced the formation of a joint venture with News Corp., which operates DBS businesses in Europe and Asia, to use the 110° slot to provide DBS service throughout the U.S.

According to the Department's complaint, which was filed in U.S. District Court for the District of Columbia, the proposed transaction would result in a lessening of competition and an enhancement of monopoly power in multichannel video distribution, which includes cable, DBS and a few other types of video programming distribution. The complaint also alleges that the

transaction constitutes an agreement that unreasonably restrains trade and allows the cable companies to maintain their market power in multichannel video program distribution markets. In the end, the transaction would deny millions of American consumers the benefits of competition, including lower prices, higher quality, greater choice, and increased innovation.

In particular, the complaint alleges that high-power DBS is the most serious competitive threat the cable industry has ever faced, and, in many areas, it is the only significant competitor to cable. Primestar would have no incentive to use the valuable 110° capacity to compete aggressively against cable companies, because doing so would “cannibalize” its owners’ existing cable subscribers. Rather, acquisition of these assets by Primestar's cable owners would prevent an independent firm from using the assets to compete directly and vigorously with their cable systems.

The complaint also asserts that the transaction eliminates the cable companies' most significant potential competitor yet--News Corp.'s ASkyB satellite venture. In February 1997, News Corp. announced plans to combine its ASkyB satellite assets and business with Echostar's DBS operations to offer an expanded service to compete aggressively against cable companies. ASkyB was poised to enter the DBS business in the U.S. and possessed numerous unique advantages, including the authority to use the 110° slot, DBS experience abroad, access to valuable programming, and financial resources. Primestar's agreement to acquire the DBS assets from News Corp./MCI led to the ASkyB venture being abandoned.

The Englewood, Colorado-based Primestar Inc., which was incorporated last month, is the successor to Primestar Partners L.P., a joint venture formed in 1990 by five of the six largest cable system operators in the nation--Time Warner Inc., Tele-Communications Inc., Comcast Corporation, Cox Enterprises Inc., and US West/MediaOne, and Primestar's satellite provider, GE American Communications Inc. Primestar's cable owners serve 60 percent of the nation's

cable households. Since 1990, Primestar has offered a medium-power DBS service. Medium-power DBS is not as attractive an alternative to cable as high-power DBS, partly because it requires the use of much larger receiving dishes.

News Corp., which had revenues of \$9.9 billion in 1996, is an Australian corporation controlled by K. Rupert Murdoch. News Corp. holds extensive media programming and distribution interests here in the U.S. and worldwide, including the 20th Century Fox movie and television studio, cable networks such as the Fox News Channel, Fox Sports Net, fX Network, and The Family Channel, as well as 22 broadcast TV stations and the Fox Broadcast Network.

MCI, headquartered in Washington, D.C., is the second largest carrier of long-distance telecommunications services in the U.S. and the second largest carrier of long-distance telecommunications services in the world, with 1996 revenues of \$18.5 billion.

The parties cannot consummate the transaction until they obtain the FCC's approval for transfer of the license for the 110° slot. Primestar's petition seeking such a transfer is pending before the Commission.

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